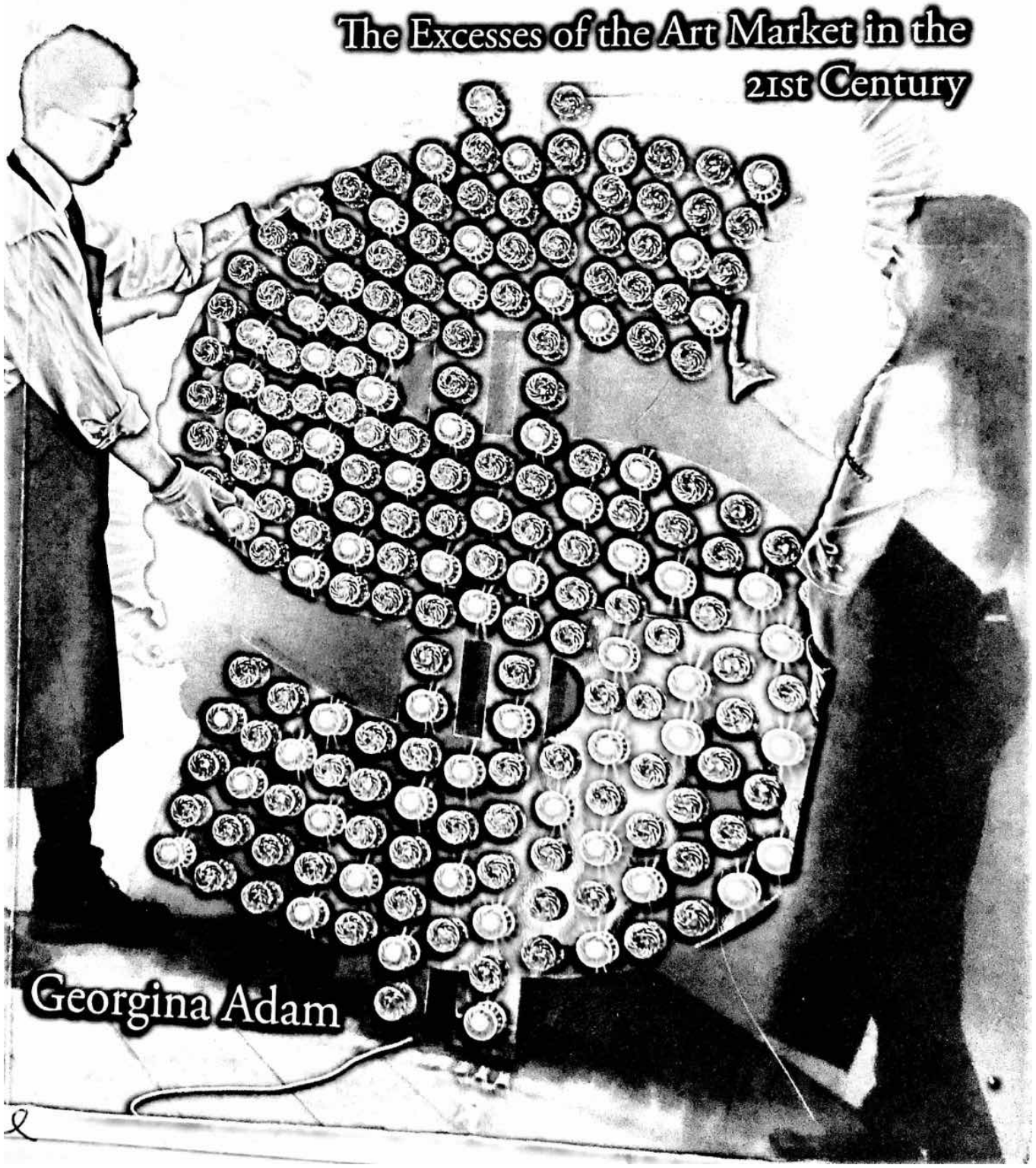
DARK SIDE OF THE BOOM

The Excesses of the Art Market in the 21st Century



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INTRODUCTION

When my first book, *Big Bucks, the Explosion of the Art Market in the 21st Century*, was published in 2014 the art market was riding high. All the talk was of *when*, not *if*, an auction would rack up a billion dollars in a single night.

Those hopes were dashed in the following two years, which saw a distinct decline in the global market, from an estimated $68.2 billion in 2014 to $56.6 billion in 2016,[1] due to a number of factors: weak sales in China, slowing economic growth globally, political uncertainty, and caution from buyers and more particularly vendors. The auction houses cut back on guarantees, which also had an impact on consignments.

Reliable figures are difficult to come by in the art market, but auction sales – the most easily trackable – slumped by almost a third between 2014 and 2016.[2] However in 2017 the market revived strongly, and in November the most astonishing price ever – $450.3 million – was given at Christie's New York for Leonardo da Vinci's *Salvator Mundi*, *c.*1500. The buyer was a Saudi prince, but its final destination was the newly-opened Louvre Abu Dhabi.

Profound transformations were continuing to impact the art trade, which was undergoing the process of consolidation and, at least until 2014, growth. Perhaps the most important change was its increasing polarisation and commodification, with the top players in the dealer sphere increasing in size and adding new outlets. Meanwhile the erosion of the 'squeezed middle' continued, with a swathe of mid-market galleries closing or finding new models for their busi-

nesses. By late 2017, the gallery sector seemed to be hurtling towards the concentration of power – and of the biggest-selling artists – in the hands of just a few mega-players.

Art fairs, which had been proliferating like condo towers in midtown Manhattan, started moving into a consolidation phase, with a growing gulf between the big groups such as Basel and Frieze, small, focused fairs such as Fog in San Francisco with just 45 dealers, and a soft middle. A few fairs folded; in Berlin, two merged. In what looked like a significant step, the powerhouse talent agency WME-IMG bought a stake in Frieze – possibly a step towards full acquisition. It was certainly a pointer to how the entertainment and art worlds were increasingly intertwining, particularly as a growing number of celebrities – James Franco, Miley Cyrus, Johnny Depp among them – were producing 'art'. Enthusiastic high-profile art collectors include Leonardo DiCaprio, Elton John, David and Victoria Beckham, Jay-Z, Pharrell Williams and Madonna, and their tastes and choices are obsessively monitored by their millions of fans.

Considerable change came to the auction houses, notably with Sotheby's hiring of Tad Smith as president and CEO in 2015. Coming from the world of media, entertainment and television, his mission was to shake up the firm after it had been attacked for 'cultural malaise' and poor performance by activist investor Dan Loeb, who, with two allies, won three company seats on the board. Smith's most controversial move was certainly the surprise acquisition of Art Agency, Partners, the advisory firm started by Christie's former contemporary art rainmaker Amy Cappellazzo and art advisor Allan Schwartzman. The deal was worth a potential $85 million, with an initial payment of $50 million and another $35 million to come, depending on performance. Two years on, the jury is still out on the eventual success of this decision.

The deal triggered an exodus of senior specialists from Sotheby's, matched by some departures from Christie's. Confusingly for clients, some specialists ended up at their rivals, while others set up gallery/art advisory businesses.

Musical chairs continued when Christie's chairman Marc Porter left the company in 2015 to join Sotheby's, took a year's gardening leave then spent three months at Sotheby's in 2017 as chairman of its newly created Fine Art Division – only to be wooed back by Christie's. Meanwhile two prominent Sotheby's veterans, Melanie Clore and Henry Wyndham, established an advisory agency. Phillips continued to pick off the people it could, notably snaring Cheyenne Westphal, who had been head of Contemporary Art at Sotheby's, as its new chairman.

Movements between the public and private sectors – mainly in that direction – included Julia Peyton-Jones, former co-director of the Serpentine Gallery, joining Galerie Thaddaeus Ropac in London, and Philippe de Montebello, ex-director of the Metropolitan Museum of Art in New York, taking on a rather undefined role at Acquavella Galleries in New York.

Taikang Life, a Chinese insurance company, bought 13.8 per cent of Sotheby's shares in 2016. Taikang is run by Chen Dongsheng, a businessman who founded China's second biggest auction house, China Guardian: an eventual acquisition of Sotheby's would certainly turn it into the biggest player in the field.

Post-war and contemporary art continued as the dominant sector, representing an astonishing 52 per cent of the market in 2016.[3] A significant move at Christie's was the decision in 2017 to close its saleroom in South Kensington in London, which handled everything from mid-range furniture to silver, to concentrate on the high-end contemporary art sector and on the Asian market. The non-profit sector also reflected this increasing bias towards the new: according to *The Art Newspaper*'s annual survey of museum attendance, '44 per cent of the more than 2,300 shows organized by 29 major US museums between 2007 and 2015 were dedicated to the work of artists active after 1970'.[4]

In the relentless battle for market share, artists' estates suddenly became the focal point of value among galleries, which fought to bring in the best endowed. Sotheby's muscled in – luring away the Rauschenberg Foundation's chief executive Christy MacLear – leading

to speculation that it was trying to encroach on what, until then, had been classic dealer territory.

While the online sector continued to grow, representing 8.4 per cent of the global market in 2016 according to the annual Hiscox report, the online market's predicted explosion did not take place, nor did the expected consolidation. Furthermore the amount spent remained stubbornly low, with a whopping 79 per cent of buyers spending less than $5,000 per item when buying online, said the report. The day that multi-million-dollar sales of a Picasso or a Warhol would take place purely online still seemed far off, at least in 2017.[5] However in summer 2017 Sotheby's removed its buyers' premium for all online purchases – a move designed to encourage new buyers into this sphere.

On the other hand, the blurring of art and the luxury goods sector accelerated sharply. The fashion world drew on artists' creativity to sell their wares; an example was the use of a Sterling Ruby tapestry as a backdrop to advertisements for Calvin Klein underwear. Artist–fashion collaborations ranged from *W* magazine featuring George Clooney wearing a startling black-and-white spotted suit by Yayoi Kusama, to more mass market offerings, such as Alex Katz's 'capsule collection' with clothes retailer H&M. One egregious example at the top of the market was Jeff Koons's 2017 partnership with Louis Vuitton, with a crass appropriation of well-known paintings by Rubens, Leonardo da Vinci, Van Gogh and other famous artists printed on handbags, with his trademark balloon dog hanging off one end and his initials on one side mimicking the LV logo.

Another important trend was the impact of social media on art. The ability to put oneself centre stage with art in the background, posted as a selfie on Instagram, shifted the focus from the artwork to the user. No artist, museum or gallery can distance itself from the immense power of social media in making their story known; at the same time, producing social-media-friendly art certainly began to influence artistic practice.

Cellphone-friendly art drove the success of immersive installations such as Kusama's *Infinity Mirrors*, held at the Hirshhorn Museum in Washington, with its glittering mirrored and pumpkin-filled rooms, which set records for attendance;[6] before its move to Los Angeles' The Broad, the private museum put 50,000 tickets on sale at $25 each, two months ahead of launch.[7] The Japanese collective teamLab's interactive digital installation at Pace Gallery in London, with its swirling flowers and surging waves, was so popular that visitors had to book places.[8] Damien Hirst's *Treasures from the Wreck of the Unbelievable* in François Pinault's two Venice 'museums' (for which one could read 'showrooms') in 2017[9] was another example of the 'art-ertainment' exhibition, with its combination of giant artworks and videos showing a fabricated salvage at sea, more like a theme park than an art show. All this was part of a wider shift, from product to experience, not only in the art world. The success of art fairs, biennales, gallery weekends and art-themed events contributed to this new, 'experiential' culture.

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In this book, I look behind the scenes at some of the excesses the explosion in the market in the twenty-first century has brought in its wake, notably those over the last few years. The active branding of art and artists as a commodity, the buying of art for investment or speculation, the temptations of forgery and fraud, conflicts of interest, tax evasion, money laundering, pressure to produce more and more art, changes in the way art is produced and sold are all part of the story. Revelations from the leaked documents of a law firm, known as the Panama Papers scandal, uncovered some murky deals, as well as the role of tax havens, used to hide art transactions – and ownership – from public scrutiny.

Most of what I recount happens at the upper end of the market, and does not touch the bulk of the day-to-day art trade. Transactions

at the top level are a tiny portion of the volume of the market, but represent a disproportionate part of its value. As the top prices are the only ones that hit the headlines, they are, misleadingly, thought to represent the market as a whole. But in fact works sold for over $1 million in 2015 were just 1 per cent of transactions. Those over $10 million were an even tinier fraction, but represented 28 percent of total sales.[10]

Nevertheless, the market's light regulation, explosive growth in prices at the top level (coupled with the enduring issue of a lack of transparency), the portable nature of art and the difficulty of accurately assessing its value are all elements that have made it vulnerable to excess. Changes in structure, an increasing corporatisation of the art world and the impact of globalisation, new players and the internet have a huge effect, mainly in the upper reaches of the market.

There are many people to whom I am deeply indebted for help in writing this book. Willing victims for my requests for interviews and information include Christian Viveros-Fauné, Cornelia Grassi, Vanessa Carlos, Olav Velthuis, James Butterwick, Pearl Lam, Ed Dolman, Stéphane Custot, Cristina Ruiz, Dr Nicholas Eastaugh, Dr Jilleen Nadolny, Laura Gilbert, Vincent Noce, Loretta Würtenberger, Dr Michael Savage, Dr Noah Charney, Dr Tim Hunter, Richard Nagy, Adrian Parkhouse, Lisa Schiff, Carlos Rivera, Tom Christopherson, Zhang Huan, Serge Tiroche, Christine Steiner, Diana Wierbicki, Stefan Simchowitz, Tim Schneider, Sterling Ruby, Detective Don Hrycyk, James Roundell, Mieke Marple, Scott Stover, Edward Winkleman, Philip Hook, Simon de Pury, Thaddaeus Ropac, Adam Sheffer, Mike Bruhn, Philip Dodd, Lisa Movius, Hadrien de Montferrand, Melanie Gerlis, Anders Petterson, David Arendt, Dr Roman Kräussl, Michael Short, Adriano Picinati di Torcello, Madeleine O'Dea, Kenny Schachter, Peter Brant, William Powhida, Asher Edelman, Donn Zaretsky, Kevin Lay, Jane Roberts, Valérie Cueto, Meridith Savona, Christopher McKeogh, Simon Hornby and Jacob Kleinman, while some did not wish to be named. I also want

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I am most grateful to my editor, Lucy Myers of Lund Humphries and to the copy editors. Any errors, naturally, are mine alone.

Finally, my thanks as ever go to my husband Christopher for his unfailing support and love.

NOTES

Currencies: When a different currency is necessary for comparison purposes, the historic converter tool at oanda.com was used unless a conversion was already provided by the vendor or buyer.

Reports: There are a number of reports cited in this book. None is perfect, due to the opaque nature of the art market, notably the dealer sector. A sign of the difficulty in quantifying the trade is that the two main ones, by Pownall and McAndrew, give very different figures for the size of the art market in 2016: $45 billion and $56.6 billion respectively, based on differing methodologies. The reports nevertheless are very useful, even if imperfect, notably for detecting trends in the market.

Legal action: A number of the cases I cite were continuing at the time of going to press. All information on these cases was finally checked on 22 September 2017.

Auction prices: Auction houses publish pre-sale estimates, both for individual works of art and for the final results of the sale, without taking into account the buyers' premium. These fees vary from 12.5 per cent to 25 per cent or more depending on the hammer price, and depending on the auction house. In this book I have given totals with premium.

Definitions of sectors: I have taken sector definitions from Clare McAndrew's *The Art Market 2017* – post-war and contemporary, artists born after 1910; Living artists, those alive in 2016; Modern, artists born between 1875 and 1910; Impressionist and Post-Impressionist, artists born between 1821 and 1874.

Prologue

LE FREEPORT, LUXEMBOURG

17 September 2014: On a hot autumn day, security was tight around Le Freeport in the tiny European duchy of Luxembourg. A freshly built, armoured warehouse was being opened by the Grand Duke himself, accompanied by his most senior ministers and a bevy of high officials.

For the lucky ones on the guest list, arriving meant navigating a still-unfinished access road near Findel airport, the women tripping in their high heels on the uneven asphalt. After an identity check, guests moved through steel turnstiles and past walls topped with barbed wire into the prison-like building.

Once inside they were greeted with all the trappings of a smart vernissage and the buzz of conversation as local notables rubbed shoulders with art dealers, auctioneers, collectors and bankers from around Europe, all watched warily by security men perched high up above the festivities. As cameras flashed and drinks circulated, the Luxembourg Philharmonic played a 'Freeport' overture, specially composed for the occasion. Blue and pink light played on the walls, somewhat softening the austere grey tones and factory-like walkways. At one end of the lobby, a newly commissioned artwork stared down, a series of portraits deeply etched into the walls, by the artist Alexandre Farto. Under their impervious gaze, guests gathered around the stage to listen to the Grand Duke's speech.

The Grand Duke's entourage included the deputy prime minister and the ministers of finance and culture – a sign of just how important the opening was for Luxembourg, whose immense wealth is built on discreet financial services to the uber-rich. One by one, the speakers hammered home the consequences for Luxembourg of the project: 'Le Freeport will significantly contribute to the diversification of the Luxembourg economy, enriching and complementing both its logistics platform and its financial centre,' said Deputy Prime Minister Etienne Schneider.

Among the speakers was a neatly dressed, compact, middle-aged man: Swiss businessman Yves Bouvier, the main investor in the building and already known throughout the art world as the 'Freeport King'. This was his second such facility, after one he had opened in Singapore four years previously. His art shipping and storage company Natural Le Coultre was a major world player, and he was the biggest tenant of another such store in Geneva, which holds billions of dollars' worth of art.[1] At the time Bouvier had his fingers in many other art-world pies – from founding an art fair in Russia, investing in galleries in Geneva, Paris and Singapore and creating a projected art hub on a Parisian island to owning an art conservation and authentication service in Switzerland. 'Le Freeport Luxembourg squarely addresses the exacting demands of the globalised art world,' said Bouvier in his speech. 'For collectors and investors there is no better place to store, show and trade their artworks and other valuables.'

His new project was specifically designed to hold such high-value goods. Boasting steel-reinforced concrete walls, the building is just 200 metres from the airport, ensuring that paintings, sculptures, wine, diamonds and precious metals can be jetted in and speedily tucked away behind five-tonne steel doors and an impressive security system. Even outsize works of art can easily be stored – manoeuvred in through jumbo 2 x 3 metre doors and kept in 8-metre-high rooms. As well as art the repository can also hold 700,000 bottles of wine in perfect climate-controlled conditions. Luxembourg's huge wealth, boasting the second highest per capita income in the world after Qatar,[2] stems from banking, the largest sector of its economy, and notably investment: according to Nicolas Mackel, CEO of Luxembourg for Finance, assets under management in investment funds represented a mammoth €3.35 trillion in 2013.[3]

The Grand Duchy had spent years trying to block a European Union law on tax transparency. However in early 2014 it had caved in and agreed to open up the secrets of its banks, accepting automatic sharing of data – none of which suited those who wanted to keep

their tax affairs under wraps. Fearing an exodus of its well-heeled clients to Switzerland,[4] the Grand Duchy had been exploring other services it could offer them, to keep them in the country. Among these was art storage, exploiting Luxembourg's strategic position between France, Germany and Belgium and its excellent transport links. This plugged into a shift in how the uber-rich were investing their money, by increasingly accumulating tangible assets such as wine, art and vintage cars, particularly after the global financial crisis of 2008–9, when interest rates on other investments plunged to rock bottom.[5] But they needed somewhere safe to store their acquisitions, and in addition while in these high-security warehouses, goods could be sold and resold within their armoured walls, with no one the wiser and with no tax payable.

Also fuelling business in these freeports was the growing trend for buying art purely for investment and speculative purposes. Works bought by art funds and traders, even by collectors, could sit quietly in the vaults, hopefully accumulating value until the right time to sell came along. There could also be more nefarious motives at play. As cash became increasingly 'hot', with enforcement agencies constantly on the look-out for signs of money laundering, so tangible assets, sometimes held by nominees, became a safer way to stash dubiously acquired wealth.

However, none of this was discussed on that sunny afternoon in Luxembourg, as the champagne glasses clinked and canapés were passed around. But only 18 months later, a bombshell hit the players of this cosy world.

In February 2015 Yves Bouvier was arrested in Monaco, accused of fraud and money laundering. He spent three days in prison before being released on €10 million bail. It was the opening salvo in a titanic battle, which continues as this book is written, between Bouvier and his former client, and alleged victim, Dmitry Rybolovlev, a Russian billionaire, owner of Monaco football club and worth an estimated $10 billion in 2015.[6]

Over the next few months, it emerged that for at least ten years, Bouvier had built up a veritable treasure trove of art for Rybolovlev. The works included Picasso portraits, Rodin sculptures, paintings by Rothko and Modigliani and the last Leonardo painting on the open market at the time of sale, *Salvator Mundi* (1500), all of which were bought for about $2 billion and held in offshore family trusts (see Appendix). Few at the time knew that, as well as running his shipping company and freeports, Bouvier was also acting as an art dealer at the highest level. The transactions he handled were almost all secret, made outside art galleries, or negotiated through an auction house's private sales channel. As a result, pricing was completely opaque, and according to Rybolovlev, he only discovered that the mark-ups on the works were gigantic after an art advisor revealed that the $118 million he had paid for Modigliani's *Nu couché au coussin bleu* (1916) was wildly higher than the $93.5 million the previous owner had sold it for.

Rybolovlev accused Bouvier of fraud, by misrepresenting his role by pretending to act as an agent, not as the seller. Bouvier insisted he was acting as a dealer, that this was clear to both sides, and that he was entitled to make what he could – and affirmed that without his knowledge and contacts, the Russian would never have been able to buy the works in dispute. His version is that Rybolovlev wanted to buy easily moveable assets and was not overly concerned by the prices he was paying.

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The Bouvier/Rybolovlev combat certainly should not stand as a paradigm for the whole art market. This is an exceptional case of works of art bought and sold for prices outside the visible market in the multi-millions, by a billionaire Russian and a dynamic entrepreneur. In no way is this typical of the hundreds of thousands of transactions that occur every day around the world in fairs, auction houses and art galleries, or in artists' studios.

Freeports, high prices, opacity: these elements in the dispute do not imply wrongdoing, but can be found in other excesses at the top end of the art market, which will be examined in the following chapters. In the context of the industry's huge growth this century, I look at issues of supply and demand, where artists and galleries are under pressure to produce, or over-produce, enough to feed an expanding series of events around the world. The uptick in faking and forgery, stimulated by the rise in prices, is also considered, as well as the increased pressure on authenticators, again triggered by increases in values, where a 'yes' or a 'no' can make the difference between either millions of dollars or a few thousand at best.

There are also the financial aspects to note: investment in art and speculation, as well as more nefarious practices, such as price manipulation, tax evasion or avoidance, money laundering, stashing stolen goods and general lawlessness. As a result of these, there have been increasing calls for more regulation of the art market, which until now has seen only light oversight. In the final chapter, I will look at how this could be done – and whether the various players in the market really want this to happen.